

Case Name: *In the Matter of* Accrediting Council for Independent Colleges and Schools

Docket No.: 16-44-O

Filing Party: Respondent, Accrediting Council for Independent Colleges and Schools

Exhibit No.: B-O-69



**ACCREDITING COUNCIL FOR INDEPENDENT
COLLEGES AND SCHOOLS**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2017

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

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Independent Auditors' Report

To the Board of Directors
Accrediting Council for Independent Colleges and Schools

We have audited the accompanying financial statements of Accrediting Council for Independent Colleges and Schools (ACICS) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Accrediting Council for Independent Colleges and Schools as of June 30, 2017, and the change in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.



To the Board of Directors
Accrediting Council for Independent Colleges and Schools

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Accrediting Council for Independent Colleges and Schools' 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 7, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

(b)(6)



Bethesda, Maryland
December 1, 2017

Certified Public Accountants

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2016)**

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and Cash Equivalents		
Accounts Receivable, Net		
Prepaid Expenses		
Total Current Assets		
Investments		
Property and Equipment, Net		
Other Assets		
Deposits		
Total Assets	<u><u>\$ 15,335,181</u></u>	<u><u>\$ 17,273,911</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses		
Accrued Compensation		
Deferred Revenue		
Total Current Liabilities		
Long-Term Liabilities		
Accrued Rent, Noncurrent Portion		
Total Liabilities		
Net Assets		
Unrestricted		
Total Liabilities and Net Assets	<u><u>\$ 15,335,181</u></u>	<u><u>\$ 17,273,911</u></u>

See accompanying Notes to Financial Statements.

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)**

	2017	2016
Support and Revenue	(b)(4)	
Sustaining Fees	(b)(4)	
Accreditation Visits		
User Fees		
Workshop Registration Fees		
Investment Income (Loss)		
Other Revenue		
Total Support and Revenue	<u>8,784,835</u>	<u>11,547,780</u>
Expenses		
Program Services	(b)(4)	
Accreditation Expense		
Education		
Supporting Services		
Management and General		
Total Expenses	<u>9,910,026</u>	<u>12,812,255</u>
Change in Unrestricted Net Assets	(b)(4)	
Net Assets, Beginning of Year		
Net Assets, End of Year	<u><u>\$ 14,587,500</u></u>	<u><u>\$ 15,712,691</u></u>

See accompanying Notes to Financial Statements.

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)**

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities	(b)(4)	
Change in Unrestricted Net Assets		
Adjustments to Reconcile Change in Unrestricted		
Net Assets to Net Cash Used in Operating Activities		
Depreciation		
(Gain) Loss on Investments		
(Gain) Loss on Disposal of Property and Equipment		
<u>(Increase) Decrease in Assets</u>		
Accounts Receivable		
Prepaid Expenses		
<u>Increase (Decrease) in Liabilities</u>		
Accounts Payable and Accrued Expenses		
Accrued Compensation		
Deferred Revenue		
Accrued Rent		
Net Cash Used in Operating Activities	<u>(1,256,283)</u>	<u>(623,184)</u>
Cash Flows from Investing Activities	(b)(4)	
Purchases of Investments		
Sales of Investments		
Purchases of Furniture and Equipment		
Net Cash Provided by Investing Activities	<u>1,212,929</u>	<u>293,185</u>
Net Decrease in Cash and Cash Equivalents	(b)(4)	
Cash and Cash Equivalents, Beginning of Year		
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,163,823</u></u>	<u><u>\$ 1,207,177</u></u>

See accompanying Notes to Financial Statements.

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

1. ORGANIZATION

Accrediting Council for Independent Colleges and Schools (ACICS) was founded in 1912 to establish and advance the quality of education of independent, non-public career schools, career institutions, and colleges. ACICS accomplishes these objectives by performing the accreditation function for its members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Financial statement presentation follows accounting principles generally accepted in the United States of America in relation to net asset classification. ACICS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There are no temporarily or permanently restricted net assets at June 30, 2017.

Cash and Cash Equivalents

ACICS considers all short-term, highly liquid investments with initial maturities of three months or less to be cash equivalents. Since all such cash equivalents are contained in ACICS's investment portfolio and are not used in current operations, they are reported as investments.

Accounts Receivable

Accounts receivable includes program related revenue that has not been received as of June 30, 2017. No interest is accrued on receivables. Accounts receivables are reported at their unpaid balances, reduced by an allowance for doubtful accounts, if necessary. As of June 30, 2017, management does not believe doubtful accounts are significant, and no allowance has been reflected in the financial statements. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms.

Management periodically evaluates the adequacy of the allowance for doubtful accounts by considering ACICS's past receivables loss experience, known and inherent risks in the accounts receivable population, adverse situations that may affect the client's ability to pay, and current economic conditions.

The allowance for doubtful accounts is increased by charges to bad debts expense and decreased by charge offs of the accounts receivable balances. Accounts receivable are considered past due based on management's determination. Accounts receivable are reduced based on management's case-by-case determination that they are uncollectible.

Investments

ACICS invests in a professionally managed portfolio. All investments are carried at fair value. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risk in the near term could materially affect investment balances and the amounts reported in the financial statements.

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

Realized and unrealized gains and losses are reported as investment income in the statement of activities and changes in net assets.

Property and Equipment

Property and equipment are recorded at cost. All acquisitions in excess of \$1,000 are capitalized. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Artwork is not considered a collection and is a non-depreciable asset. Property and equipment are reviewed for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation, and any gain or loss is reflected in income.

Revenue Recognition

Sustaining fees are recognized in the year to which they apply. Sustaining fees received in advance are recorded as deferred revenue and are recognized in subsequent periods when they are earned.

User fees are charged to cover the administrative costs of processing forms and are recognized when the forms have been processed.

Substantially all receivables are derived from institutions that ACICS accredits. All receivables to these institutions are made on an unsecured basis. Historically, ACICS has not incurred significant credit related losses.

Functional Allocation of Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Information as of June 30, 2016

The financial information as of June 30, 2016, is presented in the statement of financial position, statement of activities and changes in net assets, and statement of cash flows for comparative purposes only and is not intended to represent complete financial statement presentation.

Advertising Costs

ACICS expenses advertising costs as they are incurred.

Income Taxes and Uncertainty in Income Taxes

ACICS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as an organization that is not a private foundation. ACICS is, however, subject to income tax on any net profits generated by unrelated business activities as defined under the tax laws. To date, ACICS has not engaged in such activities. As of June 30, 2017, ACICS's information returns filed with the Internal Revenue Service remain open for examination generally for three years after they were filed.

ACICS follows the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Examples of tax positions include the tax-exempt status of ACICS and various positions related to the potential sources of unrelated business taxable income (UBTI). As of June 30, 2017, ACICS had no uncertain tax positions that qualified for either recognition of an unrecognized tax benefit or disclosure in its financial statements.

ACICS's policy is to recognize interest and penalties, if any, on tax positions related to its unrecognized tax benefits in income tax expense in the financial statements. No interest and penalties were assessed or recorded during the year ended June 30, 2017.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on net assets or changes in net assets.

3. CONCENTRATION OF CREDIT RISK

ACICS maintains its cash balances at one financial institution in the Washington, D.C., area. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2017, the uninsured balance for all cash accounts was approximately

(b)(4)

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

3. CONCENTRATION OF CREDIT RISK (CONTINUED)

ACICS maintains its investments at one financial institution in the Washington, D.C., area. The cash equivalents and certificates of deposit held at this institution are insured by the FDIC up to \$250,000. At June 30, 2017, there was no uninsured balance for these cash equivalents and certificates of deposit. All other investments held in this institution are insured by the Securities Investor Protection Corporation (SIPC) for up to \$500,000. At June 30, 2017, the uninsured balance for these investments was approximately (b)(4)

4. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2017, consisted of the following:

Furniture and Fixtures
Leasehold Improvements
Artwork

Less Accumulated Depreciation and Amortization

(b)(4)
<u>\$ 1,649,460</u>

Depreciation and amortization expense was \$644,827 for the year ended June 30, 2017.

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

ACICS's investments constitute its only assets or liabilities measured at fair value on a recurring basis as of June 30, 2017. These investments and their fair value measurements are summarized below:

	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Cash and Short-Term Investments	(b)(4)			\$ -
Corporate Bonds				-
Corporate Bond Mutual Funds				-
U.S. Equities				-
U.S. Equity Mutual Funds				-
International Equities				-
	<u>\$ 12,146,205</u>	<u>\$ 8,695,372</u>	<u>\$ 3,450,833</u>	<u>\$ -</u>

Accounting principles generally accepted in the United States of America provide a common definition of fair value, establish a framework for measure of fair value and expand disclosures about fair value measurements, but do not require any new fair value measurements.

All assets and liabilities required to be measured at fair value by these accounting principles have been assessed with the following three-tier hierarchy of inputs:

Financial assets measured using Level 1 inputs are based on unadjusted quoted market prices in active markets for identical assets.

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Level 2 inputs, if any, include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from observable market data.

Level 3 inputs, if any, are obtained from ACICS's own assumptions.

Investment income consisted of the following for the year ended June 30, 2017:

Interest and Dividends	(b)(4)
Realized Gains	
Unrealized Gains	
Net Investment Income	<u>\$ 1,274,982</u>

ACICS incurred investment fees of approximately \$80,000 for the year ended June 30, 2017.

6. COMMITMENTS AND CONTINGENCIES

ACICS leases office space in Washington, D.C., which was amended in June 2017 to terminate part of the space and extend the agreement through December 31, 2018. Minimum monthly rent is currently \$37,948. The total of all rental payments due under the lease are being recognized on a straight-line basis in the statement of activities and changes in net assets. Accordingly, there is a liability recorded for accrued rent equal to the difference between the rent expense and the actual cash payments required by the lease.

The following is a schedule of future minimum lease payments as of June 30, 2017:

For the Years Ending June 30,

2018	(b)(4)
2019	
	<u>\$ 711,531</u>

The total expense incurred under all operating leases during the year ended June 30, 2017, was (b)(4)

ACICS has contracted various consultants and insurance providers. ACICS is obligated to pay fees for these relationships. ACICS had an employment contract with its Interim President which expired on July 31, 2017. An agreement was signed with a new President on June 30, 2017, for a three-year term commencing on July 31, 2017, and concluding on July 30, 2020.

7. PENSION PLANS

ACICS has a defined contribution pension plan, ACICS retirement/savings plan, as regulated by the Internal Revenue Service Code 401(a). Employees become eligible after one year of service, and become 25% vested for every year of employment. Contributions to the Plan are discretionary and ACICS contributed 5% of eligible employees' salaries. (b)(4) was contributed for the year ended June 30, 2017. ACICS's employees are also eligible to participate in a 403(b) tax deferred annuity plan through which they can defer a portion of their annual salary. These voluntary contributions immediately vest to the employees.

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

8. ACCREDITATION AUTHORITY

ACICS was recognized as an accrediting body through July 2016. ACICS was notified in September 2016 that the Senior Department Official at the U.S. Department of Education had accepted the recommendation of the Department of Education staff and the National Advisory Committee on Institutional Quality and Integrity (NACIQI) to deny renewal of recognition to ACICS.

ACICS appealed the decision and was notified in December 2016 that the Department Education denied the appeal. ACICS immediately filed litigation seeking injunctive and other relief through the courts. As of June 2017, all legal briefs have been filed with the U.S. District Court. A decision from the Court is expected over the following months unless the case is resolved in some other manner before the Court issues its decision.

9. SUBSEQUENT EVENTS

ACICS has evaluated subsequent events through December 1, 2017, the date on which the financial statements were available to be issued.

On October 1, 2017, ACICS submitted a formal petition for initial recognition as a national accreditor to the U.S. Department of Education.

SUPPLEMENTARY INFORMATION

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

**SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Program Services</u>		<u>Supporting Services</u>	
	<u>Accreditation Expense</u>	<u>Education</u>	<u>Management and General</u>	<u>Total</u>
Salaries and Benefits	(b)(4)			
Travel and Meals				
Depreciation				
Occupancy				
Professional Fees				
Meetings				
Legal and Accounting				
Interest and Fees				
Payroll Taxes				
Computers				
Utilities				
Workshops				
Bad Debt Expense				
Training				
Office Supplies				
Equipment Rentals and Maintenance				
Insurance				
Miscellaneous				
Dues and Subscriptions				
Printing and Postage				
Advertising				
	<u>\$ 3,378,338</u>	<u>\$ 2,254,778</u>	<u>\$ 4,276,910</u>	<u>\$ 9,910,026</u>



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December 1, 2017

Management
Accrediting Council for Independent Colleges and Schools
Washington, D.C.

RE: BUSINESS ADVISORY LETTER

We have audited the financial statements of Accrediting Council for Independent Colleges and Schools as of and for the year ended June 30, 2017. In connection with our audit, the following matters came to our attention which we believe will be of interest to you. The matters are observations only and do not represent significant deficiencies or material weaknesses in your system of internal control that would have impacted our audit scope.

CURRENT YEAR OBSERVATIONS

Review of accounts receivable at year-end - During our testing of accounts receivable, we noted two invoices that were cancelled shortly after year-end and should have been removed from the receivables schedule. Since the amount was immaterial and the accounts were adjusted in the following fiscal year, an adjustment to the current financial statements was not considered necessary. We would simply recommend that the year-end process include a detailed review of subsequent events that affect the year-end balances. We are pleased to observe that there has been a significant improvement in review of the aging receivables compared to previous years. Adding this step will further assist in keeping the receivables as accurate as possible.

Classification of travel expenses - We noted that travel expenses that were accumulated through Concur were not allocated to the appropriate meeting and staff expenses. As this does not affect the changes in net assets there is no net effect to the financial statements. However, we do recommend that the expenses be reviewed monthly and annually to ensure they are appropriately recorded to the relevant category. We discussed this with management and staff and they have already implemented procedures to correct this going forward.

Payroll templates - Several accrued compensation balances are calculated via manual entry spreadsheets. We determined minor miscalculations in vacation accrual and eligible salary for determining pension contributions for partial year employees. We would recommend automating as much of this process as possible to reduce the risk of human error. When determining eligible annual salary for pension contribution, we would suggest reviewing all employees whose eligibility date falls within the current fiscal year as that is the indicator that compensation should be prorated prior to calculating the employer contribution. We raised these suggestions to management and they are already in process to correct for this.

* * * * *

We would like to express our appreciation to Steven Gelfound and the rest of the accounting team for their assistance during our audit. If you should have any questions, please feel free to contact us.

Sincerely,

(b)(6)

Councilor, Buchanan & Mitchell, P.C.





**ACCREDITING COUNCIL FOR INDEPENDENT
COLLEGES AND SCHOOLS**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2016

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

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Independent Auditors' Report

To the Board of Directors
Accrediting Council for Independent Colleges and Schools

We have audited the accompanying financial statements of Accrediting Council for Independent Colleges and Schools (ACICS) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Accrediting Council for Independent Colleges and Schools as of June 30, 2016, and the change in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Accrediting Council for Independent Colleges and Schools' 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 1, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

(b)(6)



Bethesda, Maryland
November 7, 2016

Certified Public Accountants

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2015)

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets	(b)(4)	(b)(4)
Cash and Cash Equivalents		
Accounts Receivable, Net		
Prepaid Expenses		
Total Current Assets		
Investments		
Property and Equipment, Net		
Other Assets		
Deposits		
Total Assets	<u>\$ 17,273,911</u>	<u>\$ 18,765,144</u>
Liabilities and Net Assets		
Current Liabilities	(b)(4)	(b)(4)
Accounts Payable and Accrued Expenses		
Accrued Compensation		
Deferred Revenue		
Total Current Liabilities		
Long-Term Liabilities		
Accrued Rent, Noncurrent Portion		
Total Liabilities	(b)(4)	(b)(4)
Net Assets		
Unrestricted		
Total Liabilities and Net Assets	<u>\$ 17,273,911</u>	<u>\$ 18,765,144</u>

See accompanying Notes to Financial Statements.

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	<u>2016</u>	<u>2015</u>
Support and Revenue	(b)(4)	
Sustaining Fees		
Accreditation Visits		
User Fees		
Workshop Registration Fees		
Investment Income (Loss)		
Other Revenue		
Total Support and Revenue	<u>11,547,780</u>	<u>13,615,127</u>
Expenses	(b)(4)	
Program Services		
Accreditation Expense		
Education		
Supporting Services		
Management and General		
Total Expenses		
Change in Unrestricted Net Assets		
Net Assets, Beginning of Year		
Net Assets, End of Year	<u><u>\$ 15,712,691</u></u>	<u><u>\$ 16,977,166</u></u>

See accompanying Notes to Financial Statements.

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)**

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities	(b)(4)	(b)(4)
Change in Unrestricted Net Assets		
Adjustments to Reconcile Change in Unrestricted		
Net Assets to Net Cash (Used in) Provided by		
Operating Activities		
Depreciation		
Loss on Investments		
(Gain) Loss on Disposal of Property and Equipment		
<u>(Increase) Decrease in Assets</u>		
Accounts Receivable		
Prepaid Expenses		
<u>Increase (Decrease) in Liabilities</u>		
Accounts Payable and Accrued Expenses		
Accrued Compensation		
Deferred Revenue		
Accrued Rent		
 Net Cash (Used in) Provided by Operating Activities		
 Cash Flows from Investing Activities	(b)(4)	(b)(4)
Purchases of Investments		
Sales of Investments	(b)(4)	(b)(4)
Purchases of Furniture and Equipment		
 Net Cash Provided by (Used in) Investing Activities	(b)(4)	(b)(4)
 Net Decrease in Cash and Cash Equivalents		
Cash and Cash Equivalents, Beginning of Year	(b)(4)	(b)(4)
 Cash and Cash Equivalents, End of Year		
	<u><u>\$ 1,207,177</u></u>	<u><u>\$ 1,537,176</u></u>

See accompanying Notes to Financial Statements.

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

1. ORGANIZATION

Accrediting Council for Independent Colleges and Schools (ACICS) was founded in 1912 to establish and advance the quality of education of independent, non-public career schools, career institutions, and colleges. ACICS accomplishes these objectives by performing the accreditation function for its members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Financial statement presentation follows accounting principles generally accepted in the United States of America in relation to net asset classification. ACICS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There are no temporarily or permanently restricted net assets at June 30, 2016.

Cash and Cash Equivalents

ACICS considers all short-term, highly liquid investments with initial maturities of three months or less to be cash equivalents. Since all such cash equivalents are contained in ACICS's investment portfolio and are not used in current operations, they are reported as investments.

Accounts Receivable

Accounts receivable includes program related revenue that has not been received as of June 30, 2016. No interest is accrued on receivables. Accounts receivables are reported at their unpaid balances, reduced by an allowance for doubtful accounts, if necessary. At June 30, 2016, the allowance for doubtful accounts amounted to (b)(4). Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms.

Management periodically evaluates the adequacy of the allowance for doubtful accounts by considering ACICS's past receivables loss experience, known and inherent risks in the accounts receivable population, adverse situations that may affect the client's ability to pay, and current economic conditions.

The allowance for doubtful accounts is increased by charges to bad debts expense and decreased by charge offs of the accounts receivable balances. Accounts receivable are considered past due based on management's determination. Accounts receivable are reduced based on management's case-by-case determination that they are uncollectible.

Investments

ACICS invests in a professionally managed portfolio. All investments are carried at fair value. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risk in the near term could materially affect investment balances and the amounts reported in the financial statements. Realized and unrealized gains and losses are reported as investment income in the statement of activities and changes in net assets.

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are recorded at cost. All acquisitions in excess of \$1,000 are capitalized. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Artwork is not considered a collection and is a non-depreciable asset. Property and equipment are reviewed for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation, and any gain or loss is reflected in income.

Revenue Recognition

Sustaining fees are recognized in the year to which they apply. Sustaining fees received in advance are recorded as deferred revenue and are recognized in subsequent periods when they are earned.

User fees are charged to cover the administrative costs of processing forms and are recognized when the forms have been processed.

Substantially all receivables are derived from institutions that ACICS accredits. All receivables to these institutions are made on an unsecured basis. Historically, ACICS has not incurred significant credit related losses.

Functional Allocation of Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Information as of June 30, 2015

The financial information as of June 30, 2015, is presented in the statement of financial position, statement of activities and changes in net assets, and statement of cash flows for comparative purposes only and is not intended to represent complete financial statement presentation.

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

ACICS expenses advertising costs as they are incurred.

Income Taxes and Uncertainty in Income Taxes

ACICS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as an organization that is not a private foundation. ACICS is, however, subject to income tax on any net profits generated by unrelated business activities as defined under the tax laws. To date, ACICS has not engaged in such activities. As of June 30, 2016, ACICS's information returns filed with the Internal Revenue Service remain open for examination for the tax years ended June 30, 2015, 2014, and 2013 generally for three years after they were filed.

ACICS follows the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Examples of tax positions include the tax-exempt status of ACICS and various positions related to the potential sources of unrelated business taxable income (UBTI). As of June 30, 2016, ACICS had no uncertain tax positions that qualified for either recognition of an unrecognized tax benefit or disclosure in its financial statements.

ACICS's policy is to recognize interest and penalties, if any, on tax positions related to its unrecognized tax benefits in income tax expense in the financial statements. No interest and penalties were assessed or recorded during the year ended June 30, 2016.

3. CONCENTRATION OF CREDIT RISK

ACICS maintains its cash balances at one financial institution in the Washington, D.C., area. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2016, the uninsured balance for all cash accounts was approximately \$(b)(4)

ACICS maintains its investments at one financial institution in the Washington, D.C., area. The cash equivalents and certificates of deposit held at this institution are insured by the FDIC up to \$250,000. At June 30, 2016, there was no uninsured balance for these cash equivalents and certificates of deposit. All other investments held in this institution are insured by the Securities Investor Protection Corporation (SIPC) for up to \$500,000. At June 30, 2016, the uninsured balance for these investments was approximately (b)(4)

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

4. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2016, consisted of the following:

Furniture and Fixtures
Leasehold Improvements
Artwork

Less Accumulated Depreciation and Amortization

(b)(4)	
<u>\$ 1,926,623</u>	

Depreciation and amortization expense was \$808,346 for the year ended June 30, 2016.

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

ACICS's investments constitute its only assets or liabilities measured at fair value on a recurring basis as of June 30, 2016. These investments and their fair value measurements are summarized below:

	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Cash and Short-Term Investments	(b)(4)			\$ -
Corporate Bonds				-
Corporate Bond Mutual Funds				-
U.S. Equities				-
U.S. Equity Mutual Funds				-
International Equities				-
	<u>\$ 12,452,200</u>	<u>\$ 8,975,378</u>	<u>\$ 3,476,822</u>	<u>\$ -</u>

Accounting principles generally accepted in the United States of America provide a common definition of fair value, establish a framework for measure of fair value and expand disclosures about fair value measurements, but do not require any new fair value measurements. All assets and liabilities required to be measured at fair value by these accounting principles have been assessed with the following three-tier hierarchy of inputs:

Financial assets measured using Level 1 inputs are based on unadjusted quoted market prices in active markets for identical assets.

Level 2 inputs, if any, include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from observable market data.

Level 3 inputs, if any, are obtained from ACICS's own assumptions.

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Investment income consisted of the following for the year ended June 30, 2016:

Interest and Dividends	(b)(4)
Realized Gains	
Unrealized Loss	
Net Investment Loss	<u>\$ (175,467)</u>

ACICS incurred investment fees of approximately \$88,000 for the year ended June 30, 2016.

6. COMMITMENTS AND CONTINGENCIES

ACICS leases office space in Washington, D.C., which has a term that expires September 30, 2017. Minimum monthly rent is currently \$55,041. The total of all rental payments due under the lease are being recognized on a straight-line basis in the statement of activities and changes in net assets. Accordingly, there is a liability recorded for accrued rent equal to the difference between the rent expense and the actual cash payments required by the lease.

The following is a schedule of future minimum lease payments as of June 30, 2016:

For the Years Ending June 30,

2017	(b)(4)
2018	
	<u>\$ 913,093</u>

The total expense incurred under all operating leases during the year ended June 30, 2016, was (b)(4)

ACICS has contracted various consultants and insurance providers. ACICS is obligated to pay fees for these relationships. ACICS has an employment contract with its Interim President expiring on July 31, 2017, unless renewed by both parties.

7. PENSION PLANS

ACICS has a defined contribution pension plan, ACICS retirement/savings plan, as regulated by the Internal Revenue Service Code 401(a). Employees become eligible after one year of service, and become 25% vested for every year of employment. Contributions to the Plan are discretionary and ACICS contributed 10% of eligible employees' salaries. (b)(4) was contributed for the year ended June 30, 2016. ACICS's employees are also eligible to participate in a 403(b) tax deferred annuity plan through which they can defer a portion of their annual salary. These voluntary contributions immediately vest to the employees.

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

8. ACCREDITATION AUTHORITY

The Secretary of the United States Department of Education had extended the recognition of ACICS as an accrediting body through July 2016. ACICS must reaffirm this authority every five years. See Subsequent Events in Footnote 9 for further information.

9. SUBSEQUENT EVENTS

ACICS has evaluated subsequent events through November 7, 2016, the date on which the financial statements were available to be issued.

ACICS was notified in September 2016 that ITT Technical Institute would be closing all of its campuses and filing for bankruptcy. As such, ACICS expects to see a twenty percent loss in revenue for the year ending June 30, 2017. ACICS will adjust its fiscal year 2017 budget accordingly. As of July 30, 2016, ACICS reduced its workforce by seven employees, resulting in total severance payouts of approximately (b)(4)

ACICS was also notified in September 2016 that the Senior Department Official at the U.S. Department of Education had accepted the recommendation of the Department of Education staff and the National Advisory Committee on Institutional Quality and Integrity (NACIQI) to deny renewal of recognition to ACICS. As such, ACICS has notified the U.S. Secretary of Education that it will appeal this decision.

SUPPLEMENTARY INFORMATION

ACCREDITING COUNCIL FOR INDEPENDENT COLLEGES AND SCHOOLS

**SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Program Services</u>		<u>Supporting Services</u>	
	<u>Accreditation Expense</u>	<u>Education</u>	<u>Management and General</u>	<u>Total</u>
Salaries and Benefits	(b)(4)			
Travel and Meals				
Depreciation				
Occupancy				
Professional Fees				
Meetings				
Legal and Accounting				
Interest and Fees				
Payroll Taxes				
Computers				
Utilities				
Workshops				
Bad Debt Expense				
Training				
Office Supplies				
Equipment Rentals and Maintenance				
Insurance				
Miscellaneous				
Dues and Subscriptions				
Printing and Postage				
Advertising				
	<u>\$ 5,890,477</u>	<u>\$ 3,075,699</u>	<u>\$ 3,846,079</u>	<u>\$ 12,812,255</u>

November 7, 2016

To the Board of Directors
Accrediting Council for Independent Colleges and Schools

We have audited the financial statements of Accrediting Council for Independent Colleges and School Accrediting Council For Independent Colleges and Schools (ACICS) for the year ended June 30, 2016, and have issued our report thereon dated November 7, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 18, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by ACICS are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the fair value of the investment portfolio is based on the year end statements from the financial institutions that hold the investments. The prices for most securities are obtained from independent quotations services whose appraisals are based on closing prices and bid-ask quotations or other calculations using information from both independent and internal sources. Due to the extreme volume and volatility impacting the various equity and debt markets, the current market value reflected in the statements, may not be reflective of actual market prices. We evaluated the key factors and assumptions used to develop this valuation in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the collectability of accounts receivable is based on ACICS's past collection history and current economic conditions. We evaluated the key factors and assumptions used to develop this valuation in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's allocation of expenses to program and management and general accounts is based on overall staff time charged to certain departments. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the depreciation expense is based on the estimated useful lives of the property and equipment. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements was:

- The disclosure of subsequent events affecting ACICS in Note 9 to the financial statements describes a potential impact to the organization's revenues and existence as an accredited authority.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 7, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Board of Directors
Accrediting Council for Independent Colleges and Schools

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors of ACICS and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

(b)(6)



Councilor, Buchanan & Mitchell, P.C.



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November 7, 2016

Management
Accrediting Council for Independent Colleges and Schools
Washington, D.C.

RE: BUSINESS ADVISORY LETTER

We have audited the financial statements of Accrediting Council for Independent Colleges and Schools as of and for the year ended June 30, 2016. In connection with our audit, the following matters came to our attention which we believe will be of interest to you. The matters are observations only and do not represent significant deficiencies or material weaknesses in your system of internal control that would have impacted our audit scope.

CURRENT YEAR OBSERVATIONS

Evaluation of aged and credit balances in accounts receivable - During our testing of accounts receivable, we noted a number of balances in accounts receivable over ninety days, including some from closed schools. We suggest that management regularly review the balances in accounts receivable to determine collectability and either write off balances that are uncollectible or adjust the allowance for doubtful accounts as necessary. Best practices would include reviewing the list of receivables against known school closures. Additionally, we also noted credit balances in the aging, many were in the greater than 90 day category. Research should be performed to determine the proper resolution of these funds.

Turnaround time of staff/evaluator expenses - We also noted a significant delay in producing expense reports from staff/evaluators. As ACICS management is dependent on timely and accurate reporting of expense support in order to record the expenses, the entry is delayed waiting for expense reports and supporting documentation to be turned in. We recommend requiring a strict and shorter turnaround time during which expense receipts should be submitted to receive reimbursement. The policy must be strictly enforced.

We understand that steps are already in place to address these comments. The accounting team reviewed the accounts receivables for aged balances as well as old credit balances. The accounts receivable balance was adjusted as a result of their review. Management also agreed to implement a step, as part of the monthly review process, to ensure necessary adjustments are made throughout the year and prior to year-end.

To address timeliness of expense reports an e-receipt process has been implemented which allows for the accounting team to view support for charges more quickly. ACICS plans to implement a hard 30-day turnaround time, and to have ACICS staff incur more of the expenses to reduce board expenses down to minor incidentals. These steps will help ensure timely recording of expenses.

* * * * *

We would like to express our appreciation to Steven Gelfound, Katy Fisher, and the rest of the accounting team for their assistance during our audit. If you should have any questions, please feel free to contact us. We can assist you with implementing any of these recommendations.

Sincerely,

(b)(6)

Councilor, Buchanan & Mitchell, P.C.

